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USIA FOR P/FW, P/PFF, EA - PLEASE PASS TO STEVE HILTON
 OF SENATOR DANFORTH'S OFFICE; STATE FOR EAP/J; WHITE
 HOUSE FOR USTR

E.O. 12356: N/A
 SUBJECT: SENATOR DANFORTH'S Q AND A SESSION AT FOREIGN
 CORRESPONDENTS CLUB OF JAPAN

REF: TOKYO 00595

FOLLOWING IS TRANSCRIPT OF DANFORTH Q AND A:

Q: THERE IS CONCERN BOTH IN U.S. AND JAPAN OVER THE CAR
 EXPORT QUOTA SYSTEM WHICH IS TO EXPIRE IN MARCH. THERE
 IS PRESSURE IN THE U.S. TO EXTEND THE SYSTEM, WHILE IN
 JAPAN THERE IS PRESSURE TO ABOLISH IT, OR AT LEAST
 REVISE IT TO ACCOMMODATE THE SMALLER COMPANIES WHO HAVE
 SMALL ALLOCATIONS, AND IN THE CASE OF DAIHATSU WHICH HAS
 NO ALLOCATION, TO EXPORT CARS TO THE U.S.

HAS THE JAPANESE GOVERNMENT GIVEN YOU OR ANY MEMBER OF
 YOUR PARTY ANY INDICATION AS TO WHAT IT INTENDS TO DO
 WITH THE QUOTA SYSTEM? IF NOT, WHAT DO YOU THINK JAPAN
 SHOULD DO -- LET THE SYSTEM EXPIRE, EXTEND IT AS IT IS,
 OR RETAIN SOME QUOTA SYSTEM OF HIGHER LEVELS ON EXPORTS?

A: THE ANSWER TO THE FIRST QUESTION IS NO, WE HAVE BEEN
 GIVEN NO INDICATION OF WHAT THE INTENTIONS OF THE
 JAPANESE GOVERNMENT ARE. WE MET WITH PRIME MINISTER
 NAKASONE ON SATURDAY, AND HE SAID AT THAT TIME THAT THEY
 HAD NOT YET MADE A DECISION.

WHAT IS MY PERSONAL VIEW? I INTRODUCED THE QUOTA BILL
 IN THE U.S. SENATE IN 1981, WHICH LED TO THE VOLUNTARY
 RESTRAINTS. I BELIEVED AT THAT TIME THAT THE U.S. AUTO
 INDUSTRY NEEDED TWO OR THREE YEARS OF PROTECTION SO THAT
 IT COULD BE SAVED FROM GOING UNDER. I THOUGHT AT THE
 TIME THAT IF BOTH FORD AND CHRYSLER WERE GIVEN A

IT WAS NEVER MY INTENTION WHEN I INTRODUCED THAT QUOTA
 BILL THAT VOLUNTARY RESTRAINTS OR QUOTAS OR WHATEVER
 THEY ARE CALLED SHOULD GO ON FOREVER.

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HOWEVER, THE PROBLEM NOW IS BEYOND ANY SPECIFIC SECTOR. THE PROBLEM NOW IS THE OVERALL FIGURE, THE 50 BILLION DOLLAR TRADE DEFICIT THE U.S. HAS WITH JAPAN.

I THINK THAT THE TEST OF THE SUCCESS OF TRADE POLICY IS GOING TO BE WHETHER THAT (TRADE DEFICIT) NUMBER GOES UP OR DOWN AND BY HOW MUCH. I AM CONCERNED THAT A LIFTING OF VOLUNTARY RESTRAINTS IS GOING TO FURTHER EXACERBATE THE OVERALL PROBLEM AT THIS TIME. SO WHILE I NEVER INTENDED RESTRAINTS ON AUTOMOBILE IMPORTS TO GO ON IN PERPETUITY, I DO THINK THAT IN LIGHT OF THE 50 BILLION DOLLAR TRADE DEFICIT, THAT THEY SHOULD BE CONTINUED AT THIS TIME. OR IN LIEU OF CONTINUING THEM, SOME OTHER WAY IS FOUND TO REDRESS THE INCREASED AMOUNT OF THE TRADE DEFICIT THAT WOULD BE CAUSED BY TAKING THEM AWAY.

Q: ARE YOU SATISFIED WITH THE RESULTS OF THE MOSS TALKS ON TELECOMMUNICATIONS?

A: NO, BECAUSE THERE ARE NO RESULTS FOR THE MOSS TALKS ON TELECOMMUNICATIONS. I THINK THAT FROM WHAT I KNOW OF THE MOSS TALKS -- AND I AM NOT A STUDENT OF THEM OR THE RESULTS -- BUT FROM WHAT I KNOW OF THE TALKS THEMSELVES THEY WENT WELL, AND THE AGREEMENTS REACHED IN THOSE TALKS ARE SATISFACTORY TO A NUMBER OF PEOPLE IN THE U.S.: AFFECTED INDUSTRIES AND GOVERNMENTAL OFFICIALS....

I HAVE LEARNED FROM EXPERIENCE NEVER TO CLAIM VICTORY BEFORE THE NUMBERS ARE IN, NEVER TO CLAIM VICTORY BEFORE RESULTS HAVE BEEN SHOWN. WE'VE BEEN PRESENTED WITH SOMETHING LIKE SIX DIFFERENT SETS OF ACTION PROGRAMS IN THIS DECADE. ALL OF THEM HAVE BEEN UNVEILED WITH TREMENDOUS FANFARE, AND YET THE TRADE DEFICIT CONTINUES TO GO UP.

I THINK THAT THE MOSS TALKS ARE USEFUL. I IN NO WAY DOWNPLAY THEIR SIGNIFICANCE, EXCEPT THAT THE SUCCESS OF THE MOSS TALKS WILL BE SHOWN BY NUMBERS: WHETHER THERE ARE IN FACT INCREASED SALES OF THE PRODUCT LINES, THE SECTORS, THAT WERE COVERED BY THOSE TALKS.

Q: SENATOR, ABOUT A YEAR AGO AND UNTIL THE AUTUMN, WE

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WERE BEING REGALED BY STORIES IN THE JAPANESE PRESS ALL EXPECTING THAT CONGRESS WOULD COME UP WITH SOMETHING VERY DRASTIC AND VERY AWFUL BEFORE THE END OF THE YEAR. WHEN WE TALKED WITH OFFICIALS FROM VARIOUS MINISTRIES, SOME OF THESE OFFICIALS IN FACT WERE USING THAT THREAT IN ORDER TO GET SOME MOVEMENT IN AREAS WHERE THEY HOPED SOME MOVEMENT WOULD TAKE PLACE.

YOU ARE REFERRING TO THE SENSE OF THE JAPANESE PEOPLE THAT THEIR OWN NATIONAL INTEREST IS AT STAKE. WELL, AS THERE IS IN JAPANESE HISTORY NO CLEAR EVIDENCE THAT THIS HAS EVER BEFORE MOVED THE LEADERSHIP TO DO ANYTHING, AS FAR AS I CAN SEE, AND AS THESE OFFICIALS WHO, TALKING WITH US, ARE SOMETIMES HOPING FOR SOME MORE PRESSURE, I WONDER WHAT TAKES CONGRESS SO LONG IN HELPING THEM A LITTLE BIT.

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A: YOUR CRITIQUE OF THE SPEED AND EFFICIENCY WITH WHICH CONGRESS OPERATES IS VERY WELL TAKEN AND IS SHARED BY ALL OF US WHO ARE HERE. IT IS EXASPERATING IN CONGRESS TO GET ANYTHING DONE. WE FOUGHT THE BUDGET BATTLE ALL YEAR IN THE CONGRESS, BUT WE ENDED UP WITH NO REAL CHANGE IN THE BUDGET DEFICIT, AND ONLY A PROMISE -- WE HAD OUR FINGERS CROSSED -- THAT SOMETHING WOULD BE DONE TO REDUCE THE DEFICIT IN THE BUDGET AT SOME FUTURE TIME. IN THE 1984 TRADE ACT, THE HEART OF THAT BILL, AS FAR AS I WAS CONCERNED, WAS TWO YEARS IN THE MAKING. IT TOO

THAT LONG TO PASS THE BILL. WE'VE GOT SOME LEGISLATION PENDING. SENATOR DOLE HAS STATED THAT THE SENATE IS GOING TO BE TAKING IT UP AT AN EARLY TIME THIS YEAR. IT INCLUDES THE TELECOMMUNICATIONS BILL. IT INCLUDES A BILL WHICH IS AIMED AT OFFSETTING THE INCREASE IN AUTOMOBILE IMPORTS THAT WE EXPECT FROM JAPAN. IT INCLUDES AN OMNIBUS BILL WHICH WAS INTRODUCED BY SOME 34 SENATORS. I THINK

THAT IT IS VERY LIKELY THAT WE WILL HAVE TRADE LEGISLATION THIS YEAR.

I ALSO BELIEVE THAT THE PRESIDENT IS SUCH A FREE TRADER, SUCH A STRONGLY IDEOLOGICAL FREE TRADER, THAT ANY TRULY PROTECTIONIST LEGISLATION IS GOING TO BE VETOED BY THE PRESIDENT, BY THIS PRESIDENT. WHETHER CONGRESS WILL HAVE THE VOTES TO OVERRIDE A PRESIDENTIAL VETO REMAINS TO BE SEEN.

THE FACT OF THE MATTER IS THAT WHAT WE ARE SEEING IN THE UNITED STATES IS A MAJOR CHANGE IN PUBLIC OPINION. THE HEAT IS BEING TURNED ON AND PUBLIC OPINION IS REACHING THE BOILING POINT. THE PRESIDENT IS ATTEMPTING TO KEEP THE LID ON, BUT HE IS NOT GOING TO KEEP THAT LID ON TOO MUCH LONGER.

NOW, IT IS WELL KNOWN THAT JAPAN AND THE JAPANESE PEOPLE PRIDE THEMSELVES ON TAKING A LONG VIEW, SO I THINK THAT WHETHER TRADE LEGISLATION IS PASSED IN 1985 OR 1986 OR BEYOND IS LESS RELEVANT THAN WHAT WE ARE SEEING -- A MAJOR REORIENTATION IN THINKING ABOUT TRADE QUESTIONS.

WE PASSED THE TELECOMMUNICATIONS BILL (SIC). IT WAS VETOED BY THE PRESIDENT, BUT IT PASSED BOTH HOUSES OF CONGRESS BY A SIGNIFICANT MAJORITY. IT IS UNTHINKABLE THAT SUCH LEGISLATION.....I'M SORRY, WE PASSED THE TEXTILE BILL BY A SUBSTANTIAL MARGIN IN BOTH HOUSES. IT'S UNTHINKABLE THAT SUCH AN ABSURD BILL COULD HAVE BEEN PASSED IN ANY PREVIOUS YEAR. IT WAS PASSED LAST YEAR.

HAT I'M SAYING IS THAT THE MOODS ARE CHANGING AND ATTITUDES ARE CHANGING, AND THAT'S WHAT WE'RE GOING TO HAVE TO WATCH.

Q: MR. SENATOR, LAST YEAR YOUR AMBASSADOR MADE A COMMENT SOMETHING TO THE EFFECT THAT JAPAN IS NOT AS CLOSED A MARKET AS EVERYBODY THINKS AND THE U.S. IS NOT AS OPEN A MARKET AS EVERYBODY THINKS. IN FACT, THE U.S., FROM THE JAPANESE POSITION HAS RESTRICTIONS, IMPORT RESTRICTIONS, ON A NUMBER OF MAJOR COMMODITIES SUCH AS STEEL, TEXTILE, APPARELS AND AUTOMOBILES. AND IN THE PAST FEW YEARS, JAPANESE STEELMAKERS CLAIM THAT

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IN ORDER TO COOPERATE IN THE REVITALIZATION OF THE AMERICAN STEEL INDUSTRY THEY HAVE MADE LARGE INVESTMENTS IN THE U.S., ALSO BRINGING IN TECHNOLOGY, ETC. ALSO THE JAPANESE AUTO MANUFACTURERS, AS YOU NOW, HAVE MOVED INTO THE U.S. FOR MANUFACTURING WITH INVESTMENTS.

I HAVE A THREE-PART QUESTION. ONE IS: MORE SPECIFICALLY, IN WHAT WAYS DO YOU FEEL JAPAN IS NOT DOING ENOUGH, AND IN WHAT WAYS DO YOU THINK JAPAN SHOULD OR CAN DO MORE TO REDUCE THIS DEFICIT?

POINT TWO IS: AS I TALK TO BUSINESSMEN ON BOTH SIDES OF THE PACIFIC, YOUR QUESTION SEEMS TO BOIL DOWN TO TWO MAJOR FACTORS. ONE IS JAPAN IS A CLOSED MARKET. THEREFORE, AMERICANS CANNOT SELL TO THIS MARKET. THE OTHER ARGUMENT IS THAT AMERICANS ARE NOT MAKING ENOUGH EFFORTS TO SELL TO THE JAPANESE MARKET, AND IN THE VIEWS OF MANY ANALYSTS BOTH POINTS ARE WELL TAKEN.

NOW, IF THIS IS SO, CAN YOU SORT OF QUANTIFY YOUR PERCEPTION OF THIS TRADE DEFICIT? IS THERE ANY WAY YOU CAN QUANTIFY YOUR PERCEPTION, I MEAN 80 PERCENT JAPANESE AND 20 PERCENT AMERICAN RESPONSIBILITY, ETC.?

THE THIRD QUESTION WOULD BE: IF JAPAN I UNDERSTAND ACCOUNTS FOR ONLY ONE-THIRD OF THE TRADE DEFICIT OF THE U.S., THEN PUTTING JAPAN ASIDE, WHAT ACTIONS WOULD YOU RECOMMEND OR ARE CONTEMPLATING TO TAKE ON THE REMAINDER OF THE TWO-THIRDS OF THE SURPLUS?

A: FIRST, LET ME SAY THAT I HAVE GREATEST RESPECT FOR AMBASSADOR MANSFIELD, AND IT IS DIFFICULT FOR ME TO IMAGINE THAT HE MADE SUCH A RIDICULOUS STATEMENT. (LAUGHTER)

LET ME TRY TO ANSWER YOUR QUESTION, HOPEFULLY....FIRST, WHAT SHOULD JAPAN DO? WHAT JAPAN SHOULD DO IS, AS INDICATED IN MY COMMENTS, IMPORT MORE -- IMPORT MORE FROM THE U.S. AND IMPORT MORE FROM THE REST OF THE WORLD, IMPORT NOT ONLY RAW MATERIALS BUT IMPORT MANUFACTURED GOODS. HOW IT ACCOMPLISHES THAT I THINK THE PEOPLE WOULD HAVE TO FIGURE IT OUT. SOME SAY THAT JAPAN SHOULD BE A MORE CONSUMPTION-ORIENTED SOCIETY. I'M NOT AN ECONOMIST, BUT MY GUESS IS THAT IT'S CORRECT. I THINK WHAT'S HAPPENED IN THE PAST IS THAT JAPAN HAS BUILT ECONOMIC GROWTH ON EXPORTS, AND VIRTUALLY ON EXPORTS ALONE. TO ME THAT IS A POLICY WHICH HAS CREATED ECONOMIC GROWTH IN THIS COUNTRY, BUT IT HAS DONE THAT AT THE EXPENSE OF THE U.S. AND (JAPAN'S) OTHER TRADING PARTNERS AS WELL.

HOW ABOUT QUESTIONS OF U.S. EFFORTS, THE VALUE OF THE DOLLAR, ON AND ON AND ON, AND ALL THE OTHER COMPONENTS OF THE TRADE PROBLEM? THEY ARE THERE. THERE IS NO DOUBT ABOUT IT. WE HAVE TO MAKE MORE EFFORT. WE HAVE TO PRODUCE COMPETITIVE PRODUCTS AT A COMPETITIVE PRICE. WE HAVE TO SOLVE OUR OWN BUDGET DEFICIT PROBLEM.

HOWEVER, IT'S MY VIEW THAT EVEN IF WE DID ALL THESE THINGS WE STILL WOULD NOT BE ABLE TO PENETRATE THE JAPANESE MARKET BECAUSE NOBODY CAN PENETRATE THE JAPANESE MARKET. COUNTRIES WITH MAXIMUM EFFORT, SECTORS OF OUR ECONOMY WITH MAXIMUM EFFORT, CAN'T GET IN. FOR EXAMPLE, SILICON. I REPRESENT A STATE WHICH HAS AS ONE OF ITS EMPLOYERS THE MONSANTO COMPANY THAT PRODUCES SILICON. IT SIMPLY CAN'T SELL INTO JAPAN.

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NOW, QUANTIFYING ALL OF THESE VARIOUS FACTORS, I DON'T KNOW HOW TO DO IT, BUT I DO SAY THIS: THAT EVEN IF EVERYTHING WERE SOLVED, EVEN IF THE VALUE OF THE DOLLAR, EVEN IF MAXIMUM EFFORT WERE PUT IN, STILL IT IS MY BELIEF THAT WE COULD NOT GET INTO THE JAPANESE MARKET.

I THINK WHAT'S IMPORTANT TO RECOGNIZE IS THAT THIS ISN'T JUST THE U.S. EUROPEANS, WE JUST CAME FROM KOREA. THEY ARE COMPLAINING ABOUT JAPAN. THE LDCs ARE COMPLAINING ABOUT JAPAN. MAYBE EVERYBODY ELSE IS OUT OF STEP, BUT I DON'T THINK SO.

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YOUR FINAL QUESTION HAS TO DO WITH WE HAVE ONE-THIRD OF OUR TOTAL TRADE DEFICIT WITH JAPAN, ANOTHER TWO-THIRDS WITH THE REST OF THE WORLD. I THINK THAT THE TRADE DEFICIT WITH THE REST OF THE WORLD IS RELATED TO JAPANESE TRADE POLICY TO A VERY GREAT EXTENT. AND IF JAPAN DOES NOT ACCEPT THE PRODUCTS OF THE REST OF THE WORLD, IF KOREA, FOR EXAMPLE, CANNOT EXPORT ITS AUTOMOBILES TO JAPAN, WHERE IS IT GOING TO EXPORT ITS AUTOMOBILES? THE ANSWER TO THAT IS THE U.S., AND THEY ARE STARTING THAT I THINK NEXT MONTH.

SO IT SEEMS TO ME THAT JAPAN IS A VERY SUBSTANTIAL CAUSE OF THE PROBLEM THAT THE U.S. HAS NOT ONLY WITH THE ENTRY OF OUR PRODUCTS INTO THE JAPANESE MARKET, BUT TO THE BLOC
ING EFFECT THAT JAPANESE TRADE POLICIES HAVE FOR THE GOODS FROM OTHER COUNTRIES AS WELL.

Q: IT IS REPORTED THAT IN YOUR TALKS WITH OUR PRIME MINISTER, YOU SUGGESTED THAT JAPAN SHOULD INTRODUCE SOME SORT OF NATIONAL GOAL OR TARGET FIGURE FOR REDUCTION OF THE JAPANESE TRADE SURPLUS VIS-A-VIS THE U.S. WOULD YOU EMBELLISH ON THAT PROPOSAL? ALSO, DO YOU HAVE ANY SPECIFIC FIGURE IN MIND, SAY, REDUCTION TO A CERTAIN FIGURE IN CERTAIN YEARS? AND HOW MUCH OF A TRADE DEFICIT WITH JAPAN IS TOLERABLE?

A: WHAT I SAID TO THE PRIME MINISTER IS THAT JAPAN HAS BUILT ITS GROWTH IN THE PAST ON AN EXPORT VISION AND, AS I SAID IN THE SPEECH TODAY, IT IS TIME FOR AN IMPORT VISION. IT IS TIME FOR JAPAN TO TAKE ITS FAIR SHARE OF MANUFACTURED GOODS FROM THE REST OF THE WORLD -- NOT JUST RAW MATERIALS, BUT MANUFACTURED GOODS, VALUE-ADDED GOODS, PROCESSED AGRICULTURAL PRODUCTS -- NOT JUST COMMODITIES THEMSELVES.

WHAT DO I THINK WOULD BE A REASONABLE GOAL TO SET? I THINK THAT IT WOULD BE REASONABLE FOR JAPAN TO DOUBLE ITS IMPORTATION OF MANUFACTURED AND PROCESSED AGRICULTURAL GOODS IN A PERIOD OF THREE TO FIVE YEARS.

Q: YOU SPOKE OF A GROWING GROUNDSWELL IN THE STATES OF PROTECTIONISM. I WONDER, SPEAKING FOR YOUR FELLOW SENATORS HERE, IF YOU HAVE ANY VIEWS AS TO HOW YOU CAN TURN THAT NEGATIVE ATTITUDE MAYBE TO A POSITIVE END -- INSTEAD OF PROMOTING A SMOOT-HAWLEY TYPE OF PROTECTIVE LEGISLATION, (WHY NOT) HELP AMERICAN COMPANIES BECOME COMPETITIVE ON THE WORLD STAGE, AND HAVE AMERICANS, INSTEAD OF BASHING JAPAN AROUND THE NEGOTIATING TABLE,

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MAYBE BEATING JAPAN IN THE MARKETPLACE?

A: YOU KNOW, THIS PHRASE "BASHING JAPAN" IS ONE THAT THE PRESS USES REPEATEDLY, (LAUGHTER) AND THE PRESS ALSO TELLS US THAT THERE ARE 300 PROTECTIONIST BILLS THAT HAD BEEN INTRODUCED IN CONGRESS, 400 PROTECTIONIST BILLS, WHATEVER THEIR NUMBER IS, HAVE BEEN INTRODUCED IN CONGRESS. I DOUBT THAT FIGURE. I WONDER WHO HAS COUNTED THEM. I BET YOU THAT MOST OF THE TRADE BILLS INTRODUCED IN CONGRESS ARE SPECIFIC, WHAT WE CALL "MISCELLANEOUS TARIFF BILLS", TO REDUCE TARIFFS ON VARIOUS PRODUCTS THAT WE NEED IN OUR COUNTRY.

WHAT SOME PEOPLE SAY, YOU KNOW, ANY TIME ANYBODY RAISES A QUESTION ABOUT TRADE POLICIES: "OH, DON'T SAY THAT. DON'T DO THAT. PLEASE DON'T COMPLAIN ABOUT YOUR 50 BILLION DOLLAR TRADE DEFICIT."

WE'RE GOING TO COMPLAIN. THE AMERICAN PEOPLE ARE COMPLAINING ABOUT IT. THE AMERICAN PEOPLE ARE LOSING THEIR JOBS. THE AUTO INDUSTRY, ONCE THE PRIDE OF AMERICAN INDUSTRY, IS A SHADOW OF ITS FORMER SELF. THE SAME WITH STEEL. THE SAME WITH TEXTILES AND SHOES. WE ARE NOW PRODUCING ABOUT 20 PERCENT OF THE SHOES THAT ARE PRODUCED IN THE U.S.

I DON'T THINK THAT IT'S "BASHING" OTHER COUNTRIES TO SAY: WHAT ARE WE GOING TO DO ABOUT OUR JOBS? WHAT ARE WE GOING TO DO ABOUT OUR ECONOMY?

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E.O. 12356: N/A

SUBJECT: SENATOR DANFORTH'S Q AND A SESSION AT FOREIGN

WE DO HAVE A RESPONSIBILITY IN THE U.S. TO OUR PEOPLE AND TO THEIR ECONOMIC FUTURE, AND I ALSO THINK THAT FROM THE STANDPOINT OF THE POLITICAL RELATIONSHIPS BETWEEN US AND THE REST OF THE WORLD, IT'S A VERY DANGEROUS SITUATION FOR THE AMERICAN PEOPLE TO TAKE THE VIEW THAT WHEN WE DEAL WITH OTHER COUNTRIES WE ALWAYS LOSE. WE ALWAYS LOSE OUR JOBS. WE ALWAYS LOSE OUR ECONOMY.

WHAT DO I THINK SHOULD BE DONE? I THINK, FIRST OF ALL, THERE HAS TO BE, BY JAPAN, A GREATER IMPORTATION OF PRODUCTS FROM ALL OVER THE WORLD. I'M REPEATING MYSELF, BUT I BELIEVE THAT.

I THINK THAT SECONDLY, THE U.S., INSTEAD OF ENGAGING IN SIMPLY RHETORICAL FLOURISHES IN ISSUING VARIOUS PRESS STATEMENTS AND THREATENING PEOPLE AND SO ON, (WE) SHOULD CONDUCT A VERY BUSINESS-LIKE TRADE POLICY WHICH SUBSTITUTES ENFORCEMENT OF THE LAW FOR RHETORIC. WE DON'T ENFORCE THE LAW. THE PRESIDENT, IN A COUPLE OF STATEMENTS THAT HE MADE LATE LAST YEAR, INDICATED THAT HE INTENDS TO DO THAT, AND IN FACT THE ADMINISTRATION HAS INITIATED A HANDFUL OF SECTION 301 CASES. BUT WHETHER THEY LEAD TO SELECTIVE RETALIATION REMAINS TO BE SEEN. I WOULD RECOMMEND THAT TO THE ADMINISTRATION AND HAVE. I THINK THAT WE SHOULD RETALIATE SELECTIVELY AGAINST UNFAIR TRADE PRACTICES. BECAUSE I THINK THAT BY DOING SO, YOU SUBSTITUTE FOR RHETORIC AND FOR ANGER, A VERY MATTER-OF-FACT ENFORCEMENT OF THE LAW. AND FINALLY, TO REPEAT, WE HAVE TO GET OUR BUDGET DEFICIT DOWN.

Q: THE NUMBER OF PROTECTIONIST BILLS WAS PROVIDED BY

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MR. OLMER WHEN HE SPOKE HERE LAST FALL. I THINK HE SAID ABOUT 89 OR SO. AS TO U.S. INDUSTRY, THE CRITICAL U.S. INDUSTRIES LIKE STEEL AND SHOES AND AUTOMOBILES, YES, THEY CERTAINLY ARE CRITICAL AND THEY HAVE BEEN IMPORTANT TO THE U.S. ECONOMICALLY IN HISTORY. BUT I WONDER WHAT DOES THE SENATE, WHAT DOES CONGRESS INTEND TO DO TO HELP FOCUS INVESTMENT IN THE MORE PROMISING AND MORE LUCRATIVE BUSINESSES IN THE FUTURE -- HIGH-TECH BUSINESS, WHERE THESE JOBS WOULDN'T BE LOST IN THE LONG TERM?

A: I THINK THAT IN THE U.S. THE EFFICACY OF TARGETING GROWTH AREAS IN A VERY POINTED WAY IS ONE THAT DOESN'T HAVE TOO MUCH APPEAL TO TOO MANY PEOPLE. THAT IS, THIS IDEA OF GOVERNMENT PICKING THE WINNERS AND PICKING THE LOSERS, AND MANAGING THE ECONOMY VERY PRECISELY IS ONE THAT MOST OF US I THINK WOULD REJECT. WE DON'T THINK GOVERNMENT DOES A VERY GOOD JOB OF MANAGING VERY MUCH IN THE U.S.

I THINK THAT THE GOVERNMENT CAN FOLLOW SOME GENERAL PRACTICES WHICH, WHILE THEY DON'T TARGET SPECIFIC INDUSTRIES FOR GROWTH, DO TEND TO ENCOURAGE THE SORTS OF SAVINGS AND INVESTMENT AND NEW PRODUCT DEVELOPMENT IN TECHNOLOGY, ALL OF WHICH ARE IMPORTANT, I THINK, FOR US TO REGAIN THE CUTTING EDGE. FOR EXAMPLE, THE TAX CREDIT FOR RESEARCH AND DEVELOPMENT EXPIRED DECEMBER 31ST. I HAVE NO DOUBT THAT THIS YEAR WE WILL REENACT THE R&D TAX CREDIT, BUT THE VERSION OF IT THAT WAS PASSED BY THE HOUSE OF REPRESENTATIVES IS LESS GENEROUS THAN WHAT WE HAD IN THE PRIOR LAW. I THINK THAT'S A STEP IN THE WRONG DIRECTION IN OUR TAX LAWS TO IN THE SAME BILL WEAKEN THE R&D CREDIT, STRETCH OUT USEFUL LIVES FOR DEPRECIATION AND, THEREFORE, WEAKENING THE INCENTIVES FOR CAPITAL INVESTMENT IN THE EXISTING DEPRECIATION LAWS AND REPEALING THE INVESTMENT TAX CREDIT -- ALL IN THE SAME BILL.

THE TAX BILL THAT THE HOUSE OF REPRESENTATIVES PASSED IS NOT A SUPPLY SIDE TAX BILL, IT'S A DEMAND SIDE TAX BILL. IT'S ONE THAT ENCOURAGES SPENDING AND CONSUMPTION AND DEMAND RATHER THAN SAVINGS AND INVESTMENT. I THINK THE TAX POLICIES THAT ENCOURAGE SAVINGS AND INVESTMENT ARE VERY IMPORTANT, AND I THINK GETTING THE DEFICIT DOWN IS VERY IMPORTANT.

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THOSE GENERAL MACRO SOLUTIONS I THINK ARE FAR MORE PROMISING THAN SOME EFFORT BY SOMEBODY IN WASHINGTON TO ATTEMPT TO DISCERN WHAT KINDS OF BUSINESSES ARE GOING TO BE SUCCESSFUL AND WHAT NOT.

Q: YOU SAID EARLIER THAT JAPAN SHOULD INCREASE HER IMPORTS, BUT IS THE U.S. MAKING THE NECESSARY ENDEAVOR TO EXPAND THEIR EXPORTS TO THIS COUNTRY? FOR EXAMPLE, TAKE A VERY SIMPLE AUTOMOBILE. AUTOMOBILES MADE IN THE U.S. ARE RIGHT-WHEEL (DRIVE) AND IF YOU BRING THEM OVER HERE IT'S LEFT-WHEEL, SO THESE THINGS IN GENERAL.

FINALLY, IF YOU CAN GIVE US YOUR EVALUATION OF YOUR TRIP WITH REGARD TO WHAT YOU DID ACCOMPLISH OR WHAT YOU

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COULDN'T ACCOMPLISH?

A: I BELIEVE THAT THE GOAL SHOULD BE A RULE OF COMPARATIVE ADVANTAGE, AND THAT IF THE U.S. CAN'T SELL COMPETITIVE PRODUCTS AT COMPETITIVE PRICES THAT'S OUR FAULT AND NO ONE ELSE'S FAULT. BUT THE PROBLEM IN DEALING WITH JAPAN IS EVEN IF WE HAVE A COMPARATIVE ADVANTAGE, WE STILL CAN'T SELL IN THIS MARKET. THE NOTORIOUS BASEBALL BAT EXAMPLE IS TRULY RIDICULOUS. WE STILL CAN'T SELL, AS FAR AS I KNOW -- OTHER THAN JUST A VERY SMALL QUANTITY -- BASEBALL BATS IN JAPAN BECAUSE OUR BASEBALL BATS ARE NOT GOOD ENOUGH. BEEF, WE CAN'T SELL BEEF IN JAPAN. THERE IS NOTHING WRONG WITH THE STEERING WHEEL ON BEEF. WE THINK THAT OUR BEEF IS AS GOOD AS IN ANY COUNTRY IN THE WORLD. LUMBER. TELL ME WHY U.S. LUMBER ISN'T COMPETITIVE. U.S. LUMBER ISN'T SOLD HERE IN ANY SIGNIFICANT AMOUNTS FOR THE VERY SIMPLE REASON THAT JAPAN WANTS THE VALUE-ADDED IN TURNING LOGS INTO LUMBER.

SILICON, BACK TO MY OWN CONSTITUENT, MONSANTO, AS FAR AS I KNOW THE SILICON IT MAKES IS AS GOOD AS ANYWHERE IN THE WORLD. IT HAS MADE A GREAT EFFORT TO TRY TO SELL IT IN THIS MARKET, ALL TO NO AVAIL. THERE ARE HORROR STORIES AFTER HORROR STORIES. I MET ONE EMPLOYEE OF A COMPANY HEADQUARTERED IN MY HOME CITY OF ST. LOUIS RIGHT OUTSIDE THE HOTEL THIS MORNING, AND HE SAID IT'S VERY DIFFICULT TO DO BUSINESS IN JAPAN.

THEN THERE IS THE DETERRENT EFFECT OF PEOPLE WHO NOW THAT IT'S DIFFICULT AND, THEREFORE, THEY DON'T EVEN MAKE AN EFFORT TO SELL IN THIS MARKET. WE WERE IN KOREA. WE TALKED TO AUTOMOBILE MANUFACTURERS IN KOREA. WE ASKED THEM IF THEY ARE GOING TO SELL IN JAPAN, AND THEY SAID: "WE'RE NOT EVEN GOING TO TRY." THAT LITTLE CAR FOR 5,000 DOLLARS OR LESS IS JUST GOING TO BE DYNAMITE, ALREADY IS IN CANADA, WHICH IS A PRETTY GOOD TEST MARKET FOR THE U.S., AND WILL BE IN THE U.S., BUT THEY'RE NOT EVEN GOING TO TRY IN JAPAN.

SO I DON'T THINK IT'S JUST A MATTER OF LACK OF EFFORT. IT'S MATTER OF THE FACT THAT YOU CAN'T GET INTO THIS MARKET AND LET'S PERCEIVE THE SUBJECT.

YOU HAD ANOTHER QUESTION. EXCUSE ME.

Q: YOU TALKED ABOUT THE CHANGE OF ATTITUDE IN THE U.S. THE EVIDENCE STILL IS THAT THE U.S. CONSUMER IN THE LAND OF FREE TRADE AND WITHOUT RESTRICTIONS SEEMS TO CHOOSE FOREIGN COMMODITIES INCREASINGLY, AND I WONDER WHY IT IS THAT THE AMERICAN CONSUMER...DOESN'T SEEM TO FOLLOW THIS ARGUMENT THAT THE U.S. MUST PROTECT ITS DOMESTIC INDUSTRIES.

A: WELL, THE AMERICAN CONSUMER WANTS TO GET THE BEST PRODUCT AT THE BEST PRICE, AND THE AMERICAN CONSUMER IS ALWAYS GOING TO WANT TO GET THE BEST PRODUCT AT THE BEST PRICE. BUT THE AMERICAN WORKING PEOPLE WON'T BE ABLE TO SELL WHAT THEY ARE ABLE TO MAKE, AND THEY CAN'T DO THAT. WHAT WE ARE FEELING NOW IS THE TYPICAL POLITICAL EFFECT OF A SORT OF A GENERAL BELIEF IN FREE TRADE AND A GENERAL BELIEF IN ACCESS FOR CONSUMERS TO GOODS FROM OTHER COUNTRIES PITTED AGAINST A VERY SPECIFIC CONCERN

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ABOUT JOBS FOR PEOPLE IN SPECIFIC INDUSTRIES -- SUCH AS AUTOMOBILE AND STEEL. AND IT IS A FACT OF POLITICAL LIFE THAT THE INTENSITY OF THE SPECIFIC CONCERN, WHEN MATCHED AGAINST THE BREADTH AND THE GENERALITY OF THE GENERAL CONCERN, THE SPECIFIC CONCERN NORMALLY WINS POLITICALLY. AND THAT IS THE REASON THAT I THINK THAT WE'RE REALLY IN FOR VERY DIFFICULT TIMES WITH PROTECTIONISM UNLESS WE CAN SHOW THAT THE AMERICAN PEOPLE CAN MAKE SALES ABROAD.

Q: SENATOR, YOU USED THE WORD "SELFISH" REFERRING TO THE JAPANESE TRADE PRACTICES, AND ALL YEAR WE HAVE BEEN HEARING ARGUMENTS THAT JAPANESE TRADE IS "UNFAIR" AND THAT WORD HAS COME UP REPEATEDLY IN NEGOTIATIONS. I THINK IT HAS BECOME A RATHER SENSITIVE ISSUE FOR THE JAPANESE WHO RESENT THE IDEA THAT WHAT THEY'RE DOING UNFAIR. DO YOU THINK THIS KIND OF RHETORIC WHICH HAS BEEN INCREASING IN INTENSITY AS RHETORIC, IS HAVING ANY EFFECT ON JAPANESE ATTITUDES, OR IS IT JUST A.....AND MORE RHETORIC ISN'T GOING TO DO ANYTHING EXCEPT PERHAPS MAKE PEOPLE MORE ENTRENCHED IN WHAT THEY BELIEVE ALREADY?

A: I THINK THAT THERE IS A LIMITATION TO WHAT CAN BE ACCOMPLISHED BY RHETORIC, AND I AM ALSO CONCERNED ABOUT THE INTENSITY OF RHETORIC. THAT IS WHY I THINK THAT THE BASIC POLICY OF THE U.S. SHOULD BE ONE OF ALMOST LEGALISTIC RETALIATION AS OPPOSED TO AGGRAVATING PEOPLE IN JAPAN. I REALLY THINK THAT IT'S DEMEANING FOR AMERICAN POLITICIANS TO COME OVER AND START RAISING THE TONE OF THEIR VOICE ABOUT JAPAN OR ANYBODY ELSE AND THAT IT DOESN'T DO VERY MUCH GOOD.

I REMEMBER THE QUESTION THAT I WAS ASKED BEFORE AND IT'S ABOUT THE SAME AS WHAT I THINK YOU'RE ASKING, NAMELY, AM I SATISFIED WITH THE TRIP AND WHAT GOOD DOES ALL OF THIS DO. WHY ARE WE HERE?

I THINK IT'S BEEN A VERY GOOD TRIP. WE'VE HAD VERY, VERY GOOD VISITS WITH OFFICIALS IN THE JAPANESE GOVERNMENT. THERE IS NO DOUBT IN MY MIND THAT THEY SHARE OUR CONCERN ABOUT THE UNHEALTHY EFFECT OF A 50 BILLION DOLLAR TRADE DEFICIT. THEY RECOGNIZE THAT FOR THE GOOD OF BOTH THE U.S. AND JAPAN AND OUR RELATIONS WITH EACH OTHER THAT FIGURE HAS TO BE REDUCED. THEY REALIZE THE IMPORTANCE OF JAPAN ACCEPTING MORE PRODUCTS FROM OTHER COUNTRIES. BUT I HAVE TO TELL YOU THAT I AM FAIRLY PESSIMISTIC. I THINK THAT THERE IS A LIMIT TO THE AMOUNT THAT CAN BE ACCOMPLISHED BY MOSS TALKS, BY REDUCING THE VALUE OF THE DOLLAR. UNLESS THERE ARE MAJOR CHANGES IN ECONOMIC POLICY IN JAPAN, I'M PESSIMISTIC THAT THIS AS A PROBLEM THAT CAN BE DEALT WITH BY JUST TRIMMING IT AROUND THE EDGES.

Q: BECAUSE YOU WERE INVOLVED IN THE VOLUNTARY CAR RESTRICTIONS FROM THE VERY BEGINNING, AND ALSO BECAUSE THE CAR ISSUE HAS CERTAINLY BECOME THE SYMBOL OF JAPAN-U.S. TRADE FRICTION, I WOULD LIKE TO ASK ABOUT AN ISSUE WHICH IS ABOUT ONE YEAR OLD. LAST YEAR WHEN PRESIDENT REAGAN PROPOSED LIFTING THE VOLUNTARY RESTRICTIONS, JAPAN'S REACTION IN THE VERY BEGINNING WAS TO CONTINUE. THEN WE RECEIVED A WAVE OF CRITICISM FROM AMERICA THAT JAPAN WAS NOT GOING TO JOIN IN FREE TRADE WHICH IS SUPPOSED TO BE BENEFICIAL MOSTLY TO JAPAN. BUT WHEN JAPAN DECIDED TO INCREASE THE CAR EXPORTS FROM 1.5 MILLION TO 2.3 (MILLION), IT WAS AGAIN CRITICIZED. YOU

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MUST HAVE SOME IDEA AS TO WHAT COULD HAVE BEEN THE BEST SOLUTION, BECAUSE I THINK THE JUDGMENT BY MITI (MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY) HERE IS DESCRIBED AS ONE OF THE GRAVEST MISTAKES IN THE POSTWAR HISTORY IN JAPAN-U.S. TRADE. I WOULD LIKE TO KNOW BECAUSE YOU ARE SO DEEPLY INVOLVED. WHAT YOU THINK WOULD HAVE BEEN THE BEST SOLUTION?

A: I THINK THAT THE BASIC PROBLEM IS THE 50 BILLION DOLLAR DEFICIT AND THAT NUMBER HAS GOT TO BE BROUGHT DOWN AND THAT, HOPEFULLY, IT WILL BE BROUGHT DOWN BY INCREASING JAPANESE CONSUMPTION OF PRODUCTS FROM OTHER COUNTRIES AND NOT BY LIMITING EXPORTS FROM JAPAN TO

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OTHER COUNTRIES. BUT UNTIL SUCH TIME AS THERE ARE WAYS OF INCREASING IMPORTS INTO THIS COUNTRY, I THINK THAT IT WILL BE VERY, VERY BAD NOW TO LIFT THE AUTOMOBILE IMPORT RESTRICTIONS AND FURTHER EXACERBATE THE 50 BILLION DOLLAR PROBLEM.

Q: YOU MENTIONED THE QUESTION OF TAXES ON INDUSTRIAL PRODUCTS IN R&D. HOW ABOUT THE OTHER SIDE OF THE COIN? U.S. CONGRESS HAS TENDED TO STILL FAVOR TAXES WHICH HELP CONSUMERS TO GO OUT AND SPEND MORE: GIVING TAX CREDITS FOR A SECOND HOUSE, FOR WHICH THEY ARE GOING TO BUY A TV, A VTR AND SO FORTH TO PUT INTO THAT HOUSE. DO YOU THINK THAT THERE IS ANY REAL LIKELIHOOD THAT AS TAX REFORMS CONTINUE TO MOVE THROUGH CONGRESS THIS NEXT TIME AROUND THE CHANGES WILL CONSTRICT CONSUMER SPENDING IN SOME WAY THAT WOULD AFFECT THE TRADE BALANCE?

A: NO, I THINK THAT IT'S POLITICALLY VERY DIFFICULT, ONCE A GOOD DEAL IS GIVEN, TO TAKE IT BACK, AND I THINK THAT THE VARIOUS BATTLES THAT THE ADMINISTRATION HAS ATTEMPTED TO FIGHT IN ITS TWO TREASURY PROPOSALS ON THE TAX BILL, THOSE BATTLES ARE OVER. I DON'T THINK THAT THERE IS VERY MUCH WILLINGNESS ON THE PART OF SENATORS TO TRY TO PUT BACK PROPOSALS THAT THE ADMINISTRATION HAS ALREADY LOST ON IN THE HOUSE OF REPRESENTATIVES. THE QUESTION IS GOING TO BE HOW DO WE PAY FOR THE RATE CUTS THAT ARE IN THE HOUSE BILL? HOW DO WE PAY FOR THE RATE CUTS THAT ARE ADVOCATED BY THE ADMINISTRATION?

I THINK THAT THE DARK HORSE CANDIDATE RIGHT NOW, AND IT'S STILL IS A DARK HORSE CANDIDATE, IS SOME SORT OF CONSUMPTION TAX.

Q: SENATOR, I UNDERSTAND OF COURSE YOUR DESPERATION WITH THE TRADE DEFICIT AGAINST THE BACKGROUND OF THE OVERALL DEFICIT SITUATION, BUT THIS OVERALL DEFICIT HAS MOST SPECTACULARLY GROWN OVER THE LAST THREE, FOUR YEARS. THAT IS WHILE THERE WAS ALWAYS A PROBLEM, IT NEVER WAS A PROBLEM OF THAT MAGNITUDE. THIS COINCIDES, OF COURSE, WITH THE DOLLAR SITUATION AND THE DEFICIT SITUATION IN THE U.S., SO I DON'T QUITE FOLLOW YOUR DOWNPLAYING OF THE DOLLAR ISSUE BECAUSE THAT HAS BEEN EFFECTIVE IN ALMOST EVERY OTHER AREA. WHAT IN ALL THESE FOUR YEARS HAVE YOU DONE TO KEEP THAT DEFICIT DOWN IN YOUR OWN GOVERNMENT BUDGET? IT STRIKES ME THAT THAT HAS SUCH AN EFFECT IN TRADING RELATIONS AND THE DEBT RELATIONS IN ALL COUNTRIES, AND I SEE ALL THIS ENERGY AGAINST JAPAN DIRECTED TO SOLVE A PROBLEM WHICH IS, OF

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COURSE, OF GREAT SIGNIFICANCE, BUT SEEMS OUT OF COMPLETE PROPORTION TO THE BASIC PROBLEM AGAINST WHICH NOBODY SEEMS TO DIRECT SIMILAR ENERGIES. WHAT ARE YOU DOING? WHAT ARE YOU PLANNING TO DO? DO YOU SEE ANY PROSPECT THAT THIS DEFICIT SITUATION IN THE U.S. PUBLIC BUDGET WILL EVER BE CORRECTED? IS THERE ANY CHANCE TO CORRECT IT AT SUCH MAGNITUDES THAT THIS HAS NOW TAKEN ON?

A: PLEASE BEAR IN MIND THAT COUNTRIES WITH UNDERVALUED CURRENCIES RELATIVE TO THE YEN HAVE HAD THE SAME PROBLEM THAT WE HAVE HAD WITH RESPECT TO TRADING WITH JAPAN. SO I THINK THAT EVEN IF WE DROPPED THE VALUE OF THE DOLLAR FURTHER, WE WOULD STILL HAVE VERY, VERY LARGE -- UNACCEPTABLY LARGE -- TRADE DEFICITS WITH JAPAN. I AM NOT ONE WHO PUTS ALL OF THE BLAME ON THE VALUE OF THE DOLLAR, BUT I DO THINK THAT WE HAVE TO GET THE DEFICIT DOWN IN THE FEDERAL BUDGET.

NOW WE HAVE APPARENTLY TAKEN THE POSITION IN THE UNITED STATES: ONE, THAT WE ARE GOING TO GET THE BUDGET DEFICIT DOWN; TWO, THAT SOCIAL SECURITY IS GOING TO BE OFF LIMITS FOR ANY KIND OF CHANGE IN THE COST OF LIVING ADJUSTMENT; AND THREE, THAT WE ARE NOT GOING TO HAVE A TAX INCREASE.

IN MY JUDGMENT, THERE IS NO POSSIBILITY OF COMING ANYWHERE CLOSE TO THE TARGETS IF SOCIAL SECURITY IS GOING TO BE OFF LIMITS AND IF THERE IS GOING TO BE NO KIND OF TAX INCREASE. I THINK THAT WE HAD BETTER WAKE UP FROM THE DREAM WORLD AND DECIDE FOR OURSELVES AS

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POLITICIANS THAT THE BEST POLICY IS TO BE TRUTHFUL. AND I THINK THAT IF WE WERE TRUTHFUL AND WE WERE TO SAY TO THE AMERICAN PEOPLE: LOOK, WE'VE GOT A NATIONAL PROBLEM HERE. WE'RE DOING SOMETHING TERRIBLE FOR OUR COUNTRY, NOT JUST SHORT-TERM BUT LONG-TERM. WE'RE CREATING A LEGACY FOR OUR GRANDCHILDREN THAT THEY'LL NEVER BE ABLE TO SOLVE THEMSELVES IF WE CONTINUE TO LET THIS GET OUT OF HAND, AND WE'VE GOT TO GET BEYOND THE POINT WHERE WE AS POLITICIANS GO FROM ONE INTEREST GROUP TO ANOTHER AND SAY, OH WELL, WE'LL HOLD YOU HARMLESS. WE'VE DONE THAT IN SOCIAL SECURITY; WE'VE DONE THAT ON TAXES. AND MY GUESS IS THAT IF WE WERE TO GO TO THE AMERICAN PEOPLE AND SAY: LOOK, YOU'VE ALL GOT TO CHIP IN NOW, PEOPLE WOULD SAY "FINE, LET'S GO AHEAD WITH IT."

SO THAT'S WHAT I WOULD RECOMMEND. I'M VERY CONCERNED ABOUT THE BUDGET DEFICIT. I THINK THAT THERE IS NO TRADE POLICY, NO MEASURE THAT CAN (HELP)....EXCEPT THAT THE LARGEST ECONOMY ALSO DO ITS PART AND ASSUME ITS RESPONSIBILITY. WE MADE A COMMITMENT 40 YEARS AGO THAT THE HEALTH AND THE PROSPERITY AND THE STRENGTH OF THE U.S. WOULD BE RELATED TO THE HEALTH AND THE PROSPERITY AND THE STRENGTH OF JAPAN; THAT THE TWO OF US WOULD SINK OR SWIM TOGETHER; THAT WE DIDN'T WANT TO GO IT ALONE. AND IF JAPAN TAKES A POSITION THAT IT'S GOING TO GO IT ALONE, THAT IT CAN PROSPER AT THE EXPENSE OF THE U.S. AND AT THE EXPENSE OF OTHER COUNTRIES, IT'S GOING TO END UP HURTING ITSELF, IN MY OPINION, AS WELL AS THE REST OF THE WORLD. END TRANSCRIPT.
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END OF MESSAGE

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